

Press Release

Ernst & Young to Pay \$11.8 Million for Audit Failures

FOR IMMEDIATE RELEASE

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Washington D.C., Oct. 18, 2016— The Securities and Exchange Commission today announced that Ernst & Young LLP has agreed to pay more than \$11.8 million to settle charges related to failed audits of an oil services company that used deceptive income tax accounting to inflate earnings.

Ernst & Young's payment will be combined with [the \\$140 million penalty agreed to last month](#) by the audit client, Weatherford International, and money collected from two charged Weatherford employees for a total of more than \$152 million that will be returned to investors who were harmed by the accounting fraud.

Also charged in the SEC's order are the Ernst & Young partner who coordinated the audits, Craig Fronckiewicz, and a former tax partner who was part of the audit engagement team, Sarah Adams. Both agreed to suspensions to settle charges that they disregarded significant red flags during the audits and reviews.

The SEC's order finds that despite placing the Weatherford audits in a high-risk category, Ernst & Young's audit team repeatedly failed to detect the company's fraud until it was more than four years ongoing. The audit team was aware of post-closing adjustments that Weatherford was making to significantly lower its year-end provision for income taxes each year, but it relied on Weatherford's unsubstantiated explanations instead of performing the required audit procedures to scrutinize the company's accounting. The SEC's order also finds that Ernst & Young did not take effective measures to minimize known recurring problems its audit teams experienced when auditing tax accounting.

"Audit and national office professionals must appropriately address known deficiencies in their auditing of high-risk areas, and auditors must have the fortitude to refuse to sign off on an audit if important issues remain unresolved," said Andrew J. Ceresney, Director of the SEC's Division of Enforcement. "Ernst & Young failed to ensure that material post-closing accounting adjustments were justified by appropriate audit evidence, leading to a significant audit failure."

Ernst & Young, Fronckiewicz, and Adams consented to the SEC's order without admitting or denying the findings that they engaged in improper professional conduct during the audits and quarterly reviews and caused Weatherford's reporting violations. Ernst & Young agreed to pay disgorgement of \$9 million, prejudgment interest of more than \$1.8 million, and a penalty of \$1 million. Fronckiewicz and Adams agreed to be suspended from appearing or practicing before the SEC as accountants, which includes not participating in the financial reporting or audits of public companies. The SEC's order permits Fronckiewicz to apply for reinstatement after two years and Adams to apply for reinstatement after one year.

The SEC's investigation was conducted by Jim Valentino, Ilana Sultan, and Natalie Lentz with assistance from Kevin Lombardi. The case was supervised by Kara Brockmeyer and Tracy L. Price.

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Related Materials

- [SEC order](#)